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SUBJECT: TURKMENISTAN BANK COUNCIL APPROVES NEXT STEPS TOWARD
ACCOUNTING REFORM

REF: A. ASHGABAT 564
1B. ASHGABAT 534

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On May 24, Turkmenistan's Council of Bank Directors met to discuss the banking sector's transition to International Financial Reporting Standards. Representatives of leading banks in Turkmenistan, including those involved in a pilot transition exercise, advocated for approval of the sector's transition to International Financial Reporting Standards. As a result of the meeting, the council agreed to establish a coordination body tasked to oversee IFRS implementation, and formally established working groups within the framework of the ongoing Central Bank of Turkmenistan and United Nations' Development Program project, which also receives USAID support. The Coordination Body will develop a bridge from the existing chart of accountants to the new one that will be applied initially in Senegat Bank and Vneshekonombank (Foreign Economic Relations Bank) before being rolled out to other banks in Turkmenistan. Finally, the council agreed to undertake more active efforts to develop training capacity for staff able to lead USAID-supported professional education courses and to expand academic opportunities at the Banking School. Collectively, the steps taken expressed the banking sector's support for accounting reform activities to date, and gave a green light to continuing the transition towards introducing IFRS in Turkmenistan. END SUMMARY.

BANK REPRESENTATIVES EXPRESS STRONG SUPPORT FOR TRANSITION

13. (SBU) The Council of Bank Directors met on May 24 to discuss recent activities toward the introduction of International Financial Reporting Standards in Turkmenistan. The project manager for the joint Central Bank of Turkmenistan-UN Development Program project, which receives significant support from USAID through a separate Memorandum of Understanding between the UN and USAID, presented the project achievements to date, and outlined future plans in transitioning of banking sector to International Financial Reporting Standards (REFTEL A). A new chart of accounts, developed by local specialists with input from USAID's expatriate consultant to comply with international accounting practices, was also presented for the Council's review.

14. (SBU) The Chief Accountant from Senegat Bank, one of the pilot

banks selected for the trial transition to International Financial Reporting Standards, informed the council of its newly established department in the bank, which will manage the transition to International Financial Reporting Standards. Senegat Bank's Chairman delivered a speech to the Council advocating the transition to International Financial Reporting Standards. Another pilot bank, the Vneshekonombank, presented its activities for transitioning to IFRS, and its Chairman also highlighted the necessity of transition to International Financial Reporting Standards. (NOTE: The previous chairman of Vneshekonombank, Guvanch Geoklenov, was recently appointed Chairman of the Central Bank of Turkmenistan. As chairman of Vneshekonombank, he supported the pilot activities related to the introduction of International Financial Reporting Standards at Vneshekonombank. END NOTE.) Other participating bank directors also spoke favorably on the subject and presented their level of their readiness for transition.

RESOLUTIONS GIVE GREEN LIGHT TO FUTURE TRANSITION

¶15. (SBU) At the conclusion of the meeting, the Council agreed to establish a coordination body comprised of chairmen and chief accountants from Turkmenistan's banks to oversee International Financial Reporting Standards implementation. This body will work closely with the USAID-UN Development Program project and will be empowered to review and issue approvals on the major issues of International Financial Reporting Standards transition. As a result, there will not be lengthy delays while waiting for approvals from the Central Bank or the full Bank Director's Council.

¶16. (SBU) The working groups already established under Central Bank-UN Development Program project will continue their operations to promote the introduction of International Financial Reporting

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Standards and will prepare the necessary methodological instructions for banks for accounting and reporting. Specifically, these working groups are developing a bridge from the existing chart of accounts to the new one, as well as guidance on how to prepare reports and which data must be collected under the new chart of accounts in order to comply with International Financial Reporting Standards. The methodological guidance will require coordination body approval.

The new chart of accounts will be introduced in Senegat Bank and the coordination body will look for ways of replicating its introduction to other banks of Turkmenistan.

¶17. (SBU) Finally, the council agreed to increase efforts to train banking staff through the USAID-established CAP/CIPA program for professional accountants. This includes potential opportunities to expand CAP/CIPA training programs into the Banking School's curriculum. (NOTE: A further step currently being advocated by USAID is introduction of the courses' content into the university curriculum, which would prepare university graduates to sit for exams -- ref b. END NOTE.)

¶18. (SBU) COMMENT: The council's decisions supporting the future introduction of IFRS in Turkmenistan highlight the success of the working groups supported by USAID's accounting reform project in cooperation with UNDP and the Central Bank. The decisions validate the recent accomplishments and give a green light for further work toward introduction of IFRS in Turkmenistan's banking sector.

¶19. (SBU) COMMENT CONTINUED: Despite expanding opportunities to increase U.S. involvement in this area, USAID currently has only token FY08 funding to continue this work after the current project's conclusion in August 2008. The demand for technical support to introduce international standards promoting investment and transparency is expected to grow in recognition of the value of USAID's past assistance in this area. Additional resources for International Financial Reporting Standards introduction would help build much-needed capacity to educate and train future banking and financial sector leaders that will be necessary to support President Berdimuhamedov's call for increased foreign investment. Building this capacity is a worthwhile long-term investment that will require sustained U.S. engagement over the coming years. END COMMENT.

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